

**Annuity Deductions for Retired Employees Working
After Full Retirement Age
Report No. 06-04, February 17, 2006**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) evaluation of the Railroad Retirement Board's (RRB) processing of annuity deductions for employee retirement annuitants who work after the full retirement age (FRA).

BACKGROUND

The RRB's mission is to administer retirement and survivor insurance benefit programs for railroad workers and their families under the Railroad Retirement Act. The RRB also administers unemployment and sickness insurance benefit programs under the Railroad Unemployment Insurance Act. During Fiscal Year (FY) 2005, the RRB paid approximately \$4 billion in age and service benefits to retired employees. As of September 30, 2005, approximately 200,000 employee annuitants were receiving an average of \$1,690 in monthly age and service retirement benefits.

Working after retirement impacts a railroad annuity in one of three ways:

- The entire annuity is not payable if the retired employee works for a railroad or railroad labor organization.
- If an annuitant works for his/her last pre-retirement non-railroad employer (LPE), a portion of benefits is reduced, regardless of the amount of earnings or the annuitant's age. The annuitant's LPE is any non-railroad institution which employed the annuitant on his/her annuity beginning date, or for which he stopped working in order to receive an annuity.
- A retired employee can work for a non-railroad employer other than a LPE and still receive retirement benefits. However, his/her benefits will be reduced if he earns over certain limits and is under the FRA. The FRA ranges from age 65 for those individuals born before 1938, to age 67 for those born in 1960 or later.

The RRB's Office of Programs is responsible for monitoring annuitants subject to work deductions and adjusting benefit payments accordingly. The RRB 2003-2008 Strategic Plan contains a strategic goal to "serve as responsible stewards for our customers' trust funds and agency resources." A related objective is to ensure the integrity of benefit programs, and the RRB conducts comprehensive monitoring activities that identify and prevent erroneous payments. Effective procedures addressing this strategic goal and objective would ensure that the agency properly identifies work deductions and adjusts annuity payments.

OIG Audit Report #05-10, Retired Employee Work Deductions Prior to Full Retirement Age, issued September 19, 2005, determined that the agency can increase case accuracy and ensure more timely processing by revising its selection criteria for identifying potential LPE status annuitants. The OIG also found that the agency should develop and disseminate official procedures for screening and handling employee annuitants for further earnings review. Other OIG evaluations in FYs 2004 and 2005 identified deficiencies in agency controls designed to ensure that work deductions were applied to annuity payments.¹

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this evaluation was to determine if the RRB identified and applied work deductions to employee retirement annuities accurately. The scope included employee age and service annuitants born between January 1, 1935 and October 31, 1938, and in current pay status as of February 28, 2005. We reviewed non-railroad earnings in the year the annuitant attained full retirement age and subsequent years. We excluded cases with railroad earnings (service) because a prior OIG evaluation contained recommendations addressing deficiencies in this area.

To achieve our objectives, we:

- Analyzed laws, regulations, policies, and procedures.
- Tested a statistical sample of 320 employee annuitants for the accurate recognition of earnings for work deductions. Further details on the sampling methodology appear in Appendix 1.
- Conducted meetings with officials in the Office of Programs to discuss questionable cases, and agency policies and procedures.

This review was conducted in accordance with the President's Council on Integrity and Efficiency's "Quality Standards for Inspections," as applicable to the objectives. The fieldwork was performed at the RRB headquarters in Chicago, Illinois from June to December 2005.

¹ OIG Audit Report: #04-10, Review of Spouse Annuity Work Deductions at the RRB, issued September 30, 2004; #05-03, Evaluation of the RRB's Processing of Disability Earnings Cases, issued February 11, 2005; and #05-07, Evaluation of Survivor Annuity Work Deductions at the RRB, issued July 14, 2005.

RESULTS OF REVIEW

The RRB is not identifying and applying work deductions to all employee annuitants who work after FRA because some of these annuitants are not monitored for LPE earnings.

The details of our findings and recommendations follow.

SOME ANNUITANTS OVER FRA ARE NOT MONITORED FOR LPE EARNINGS

The RRB currently does not monitor all employee annuitants over FRA for work deductions due to LPE earnings.

Effective management controls help program managers to safeguard assets as well as prevent and detect errors and fraud. The RRB should conduct comprehensive monitoring activities that identify and prevent erroneous payments to ensure the integrity of its benefit programs.

The RRB identifies annuitants working for an LPE during the application process. The Office of Programs continues to monitor annuitants who remain employed through the Annual Earnings and LPE Monitoring process. During this process, the office sends policing forms to employee, spouse, and divorced spouse annuitants who are working, requesting that they inform the agency of changes in work patterns or if their earnings drop below an amount that would allow payment of additional benefits.

The Office of Programs also monitors the wage histories of its annuitants to identify undisclosed income. This office obtains computer data extractions from the Social Security Administration with yearly earnings data for annuitants in current pay status. This detective monitoring program is called EDP policing.

However, the Office of Programs does not monitor all annuitants over FRA for LPE earnings. These annuitants are removed from the Annual Earnings and LPE Monitoring process the year after they stop working. They also are not included in the EDP policing program. EDP policing does not identify earnings of annuitants over FRA because this age category has not been programmed into the extraction requirements for the program.

Therefore, if these annuitants resume working for the LPE and do not inform the agency, work deductions will not be applied because the agency would not detect the earnings. Without fully effective monitoring for earnings, the agency may overpay benefits to some annuitants over FRA. Our sample evaluation identified three annuitants who were overpaid a total of \$3,440. Based on confirmed exceptions, our preliminary estimate of the number of employee annuitants over FRA with improper payments due to lack of LPE earnings

monitoring is 224 with a one-time financial impact of approximately \$257,000 (Appendix I).

Recommendation

We recommend that:

1. The Office of Programs implement a plan to more effectively monitor annuitants over the full retirement age for LPE earnings.

Management's Response

The Office of Programs agrees with the recommendation. The office plans to submit a service request by February 28, 2006 to the Bureau of Information Services (BIS) for programming changes to enhance the current computer programs that identify LPE earnings. The Office of Programs will develop a target date for completion of the changes in conjunction with BIS. A copy of management's response is included in Appendix II of this report.

Sampling Methodology and Results Work Deductions for Employee Annuitants over FRA

Objective and Scope

The objective of our test was to estimate the number of employee annuitants for which benefits were not properly reduced for non-railroad earnings in the year of, or after, they attained full retirement age (FRA). This test supported our overall evaluation objective to determine if the Railroad Retirement Board accurately identified and applied work deductions to employee annuities with earnings in the year the annuitant attained FRA and after attaining FRA. We selected the sample from the population of 23,854 employee annuitants born between January 1, 1935 and October 31, 1938, who were in current pay status as of February 28, 2005.

Review Methodology

We used statistical estimation sampling using a 5% anticipated error rate, 5% precision and 95% confidence level, which yielded a sample size of 320. Estimation sampling is designed to approximate the frequency of a specific type of error in a universe. The sample size was set to provide assurance that the error rate will be estimated with a desired degree of precision.

An error was considered an incorrect work deduction or no work deductions for:

- An annuitant with last pre-retirement non-railroad employer (LPE) earnings, and/or
- An annuitant with excess earnings in the calendar year the FRA was attained from a non-railroad employer other than a LPE.

Results of Review

The 320 randomly selected annuitants included 112 with non-railroad earnings in or after the calendar year the FRA was attained. Our evaluation identified a total of five exceptions. Three cases included annuitants with undetected LPE earnings, resulting in overpayments of \$3,440. The Office of Programs advised that LPE earnings were not detected for these cases because the agency does not always monitor earnings for certain retired annuitants over FRA.

The two remaining cases, resulting in improper payments of \$5,611, consisted of incorrect work deductions applied for annuitants with excess earnings. These errors were caused by lack of consistent guidance for screening and handling employee annuity cases, which the OIG cited in Audit Report #05-10, Retired

Employee Work Deductions Prior to Full Retirement Age, issued September 19, 2005. Corrective action on the OIG recommendation addressing this deficiency is scheduled for completion by February 2007. Therefore, no new recommendation is necessary because corrective action will also cover cases in this population.

Our summary of confirmed errors and projections are shown below:

CAUSE OF INCORRECT WORK DEDUCTIONS	NUMBER OF EXCEPTIONS	DOLLAR VALUE
Lack of Monitoring for LPE earnings	3	\$3,440
Projection – Delayed cases (based on universe of 23,854) ²	224	\$257,114
Lack of Guidance	2	\$5,611
Projection – Improper payments (based on 23,854 universe) ²	150	\$421,611

Conclusion

Based on the exceptions, the RRB should implement a plan to more effectively monitor annuitants over the full retirement age for LPE earnings.

² Projections are midpoint estimates based on the number of confirmed sample exceptions and average error amount. Based on the sample results, the number of incorrectly paid annuitants due to lack of LPE monitoring could be as low as 47 cases or as high as 644 for the population. The number of incorrectly paid annuitants due to lack of guidance could fall within the range of 23 and 524.



UNITED STATES GOVERNMENT

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

MEMORANDUM

FEB 10 2006

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: **Draft Report – Annuity Deductions for Retired Employees Working After Full Retirement Age**

Recommendation

1

We recommend that:

1. The Office of Programs implement a plan to more effectively monitor annuitants over the full retirement age for LPE earnings.

OP Response

We agree that improvements in monitoring for last person employer (LPE) earnings after full retirement age are possible. Policy and Systems is working with Operations to enhance the current EDP programs to identify LPE earnings and include a larger population of annuitants over full retirement who may be working for their LPE. A service request to BIS for multiple program changes is expected to be released in February 2006. We will supply a target date for completion of those changes as soon as one is developed in conjunction with BIS. We expect that this recommendation will be closed out when this project is completed.

In addition to attempts to identify possible LPE in the EDP program, Policy and Systems and Field Service are also working to better identify and store employer identification numbers (EINs) of employers at the time an annuitant initially files an application. Future automation currently in the developmental stages will lead to EINs stored in RRB database; to be compared with EINs received through the EDP programs, thus indicating LPE earnings.

cc: Director of Operations
Director of Retirement Benefits/ Acting Director of Survivor Benefits
Director of Policy and Systems
Director of Field Service
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)